

THE ECONOMY AT A GLANCE

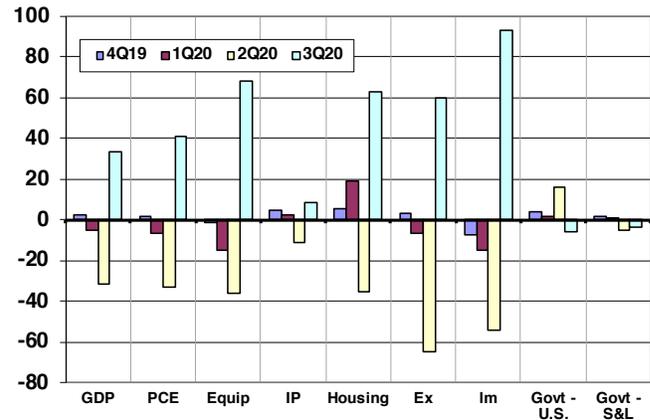
ECONOMIC HIGHLIGHTS

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FINAL 3Q GDP READING: 33.4%

The U.S. Department of Commerce announced that its third estimate of GDP growth in 3Q20 was 33.4%, a spike higher from the 31.4% plunge in 2Q20. The report also includes an inflation gauge, the PCE price index. This index, excluding food and energy, rose at a 3.4% pace, well ahead of the Fed's inflation target of 2.0%. Going forward, we expect GDP growth to settle in the low to mid-single digits. But there is still work to be done. At \$21.2 trillion, the U.S. economy at the end of 3Q was almost 3% below prepandemic highs, though some segments are back to or above prepandemic levels. These include consumer spending on durable and nondurable goods, and investment in residential and intellectual property products.

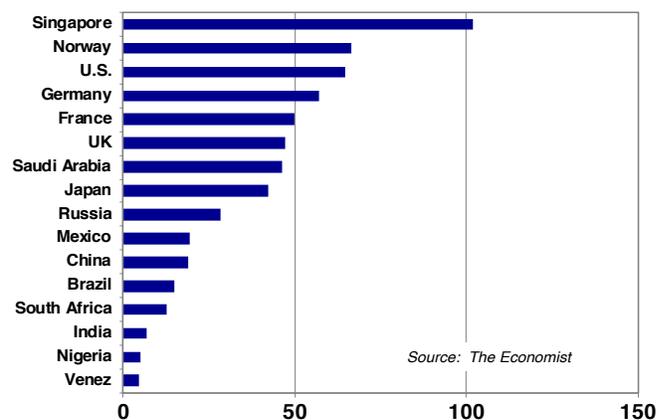
GDP GROWTH DRIVERS (%)



CHINA LAGS ON GDP/CAPITA

China has the second-largest economy in the world in terms of total GDP. But on a GDP per-capita basis, the mighty nation remains a fraction of the size of the U.S. Going forward, we look for less investment by China in domestic infrastructure and an increased focus on raising the living standards of its 1.4 billion people. This will favor business and consumer services, as well as financial services and healthcare. China is on track to overtake the U.S. in terms of the overall size of its economy within the next decade. It will take more than a generation, though, for China to approach the U.S. in terms of GDP per capita. Meanwhile, we will be keeping a close eye on the emerging nations of Nigeria and India for infrastructure-growth opportunities.

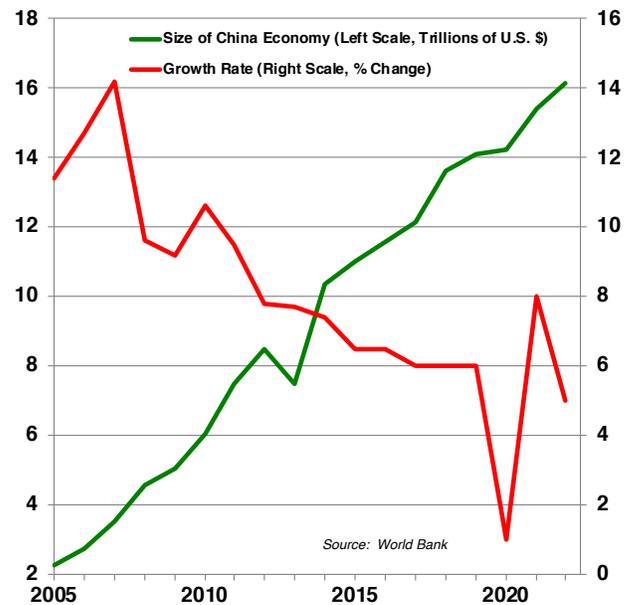
GDP/CAPITA (\$U.S., 000)



ONE COUNTRY GREW IN 2020

Economic trends in China bear watching, and not just because it appears to be a guiding light for other countries trying to emerge from the GDP-crushing grip of COVID-19. China is a \$14 trillion economy and represents about 16% of the \$86 trillion global economy. Thus, China is a critical contributor to overall global economic growth, even if it grows “only” 5%-6% annually. In fact, 6% growth in the Chinese economy today adds more to global output than the 10% growth achieved five years ago, when China was growing faster but was smaller. Of course, 2020 was not a normal year. Even so, while the global economy is expected to contract 3% for the year when all data is tallied, China is still forecast to eke out a 1% gain. Over the long run, China is an important growth market, to which U.S. companies want access on fair terms. We think it is important that the U.S. secure greater protection for corporate intellectual property rights during its ongoing trade discussions with China. The U.S. economy is evolving, and its greatest contributions ahead are likely in nonmanufacturing areas such as IT design, healthcare and finance. These are the industries that U.S. politicians need to protect for the long run.

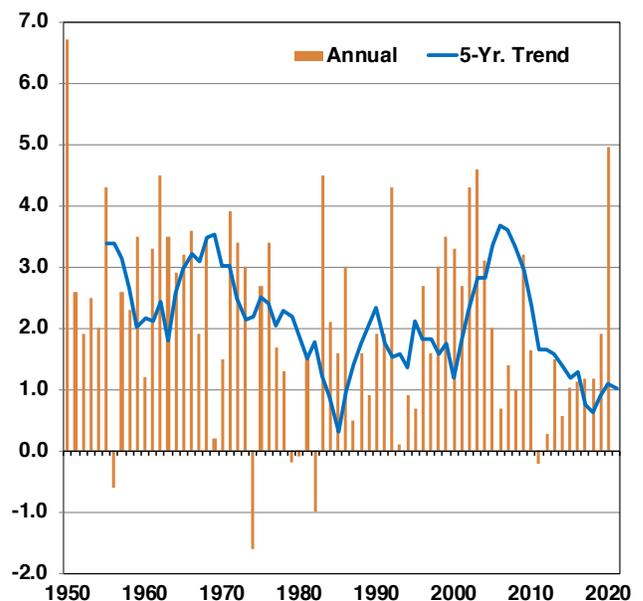
CHINESE ECONOMIC TRENDS



PRODUCTIVITY PICKS UP

Productivity is an important driver of long-term economic and income growth. The post-war decades of the 1950s and 1960s were good years for productivity growth. Productivity decelerated during the 1970s, before picking up again as the internet transformed the economy in the 1990s. Productivity dropped after the Great Recession of 2007-2009, and many economists expect a slow recovery on the other side of the pandemic. But that does not have to be the case. Low rates of interest and inflation during the previous decade imply that governments have been unable to spur investment. But governments around the world are now spending aggressively to pull economies out of recession, and productivity has risen 7.5% on average in the past two quarters. Moreover, complicated productivity initiatives like artificial intelligence take time to be integrated into an economy. As the global economy recovers, some things will change: more companies will digitize operations, provide opportunities for remote work, and accelerate automation. We expect these enhancements to result in productivity gains.

PRODUCTIVITY TRENDS (% CHANGE/YEAR)



FINANCIAL MARKET HIGHLIGHTS

SEEKING HIGH YIELD

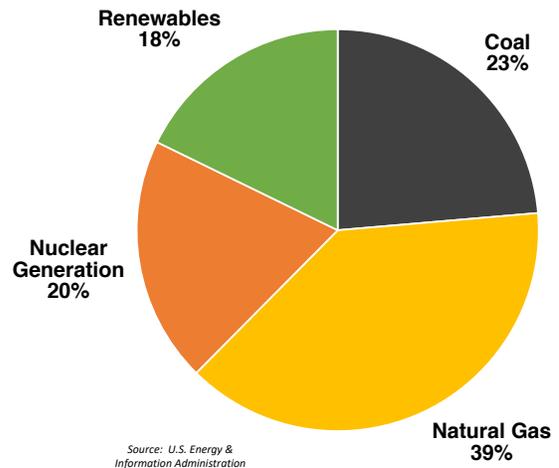
Growth stocks outperformed value, again, in 2020. But in an environment of historically low interest rates, many investors are still searching for high levels of income, which can often be found in value stocks. Value investors trace their roots to the famous “Security Analysis” textbook, written by Ben Graham, an economics professor at Columbia University. Warren Buffett was one of his students. So why the recent deviation in performance? Several reasons, including changes in the make-up of the economy, growth in intangible assets, and the current low level of interest rates. But the tide may be turning. Progress on COVID-19 vaccines has given a lift to some of the cyclical companies (energy firms and regional banks) that have lagged in recent quarters, and value stocks have kept up with growth stocks in the past quarter. Regardless, value is the place to achieve income. The current yield on the iShares Russell 1000 Value Index ETF is 2.5%, compared to the 1.0% current yield on the iShares Russell 1000 Growth Index ETF. This is important, as the current yield on the 10-year Treasury bond is 0.95%.



GREEN IS GROWING

The energy mix for U.S. power production is turning increasingly green, according to the U.S. Energy Information Administration. In the mid-1990s, coal accounted for more than 50% of domestic electricity generation. That fell to 45% at the end of the last decade and to 23% in 2019. Meanwhile, natural gas, benefiting from an increase in supply and thus low prices, accounted for 38% of total production in 2019, up from 15% in the mid-1990s. Nuclear generation accounted for 20% (stable for the past 20 years), and renewables accounted for 18%, up from 15% in 2016 and less than 5% some 20 years ago. Drilling down into renewables, wind was the leading source, accounting for 7.1% of total electricity generation, followed by hydropower (7.0%), solar (1.7%), biomass (1.4%), and geothermal (0.4%). The Trump administration tried to engineer a coal comeback, with orders that allowed the sale of coal from federal lands and lifted carbon dioxide limits on power plants. Still, we look for continued market-share growth for natural gas and renewables in the years ahead.

ENERGY MIX FOR U.S. POWER PRODUCTION



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
4-Jan	Construction Spending	November	1.3%	1.0%	1.0%	NA
5-Jan	ISM Manufacturing	December	57.5	57.0	56.5	NA
6-Jan	Factory Orders	November	1.0%	10.0%	0.9%	NA
7-Jan	Trade Balance	November	-63.1 Bln.	-64.0 Bln.	-64.1 Bln.	NA
	ISM Non-Manufacturing	December	55.9	55.0	54.5	NA
8-Jan	Non-farm Payrolls	December	245 K	250 K	80 K	NA
	Manufacturing Payrolls	December	27 K	NA	18 K	NA
	Average Weekly Hours	December	34.8	34.8	34.8	NA
	Average Hourly Earnings	December	0.3%	0.2%	0.2%	NA
	Unemployment Rate	December	6.7%	6.8%	6.8%	NA
	Consumer Credit	November	7.23 Bln.	NA	9.00 Bln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
21-Jan	Housing Starts	December	1547 K	NA	NA	NA
22-Jan	Existing Home Sales	December	6.69 Mln.	NA	NA	NA

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